



CONGRESSIONAL HEARING RESUME

106TH Congress

Date: 9 May 00

SUBJECT: Oversight Hearing on the Status of Financial Management at DOD

COMMITTEE: Committee on Government Reform, Subcommittee on Gov't Management, Information and Technology

CHAIRMAN: The Honorable Steve Horn (R-CA)

MEMBERS

PRESENT (*):

REPUBLICANS

***Steve Horn (CA)
Judy Biggert (IL)
Thomas Davis (VA)
Greg Walden (OR)
Doug Ose (CA)
Paul Ryan (WI)**

DEMOCRATS

***Jim Turner (TX)
Paul Karjorski (PA)
Major Owens (NY)
Patsy Mink (HI)
Carolyn Maloney (NY)**

WITNESSES: See Attached

Information contained in this resume was obtained during open hearing. It will not be released outside of the Department of Defense (DOD) agencies until published hearing transcripts have been released by the Committee, and only to the extent it is in accord with published hearing procedures.

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WITNESSES

Panel One

- Robert J. Lieberman, Assistant Inspector General for Auditing, DoD**
- Jeffrey C. Steinhoff, Assistant Comptroller General, Accounting & Information Management Division, U.S. General Accounting Office**
- William J. Lynn III, Under Secretary of Defense (Comptroller and Chief Financial Officer)**

Panel Two

- General John G. Coburn, Commander, Army Material Command**
- General Lester Lyles, Commander Air Force Materiel Command**
- Vice Admiral J.F. Amerault Deputy Chief of Naval Operations (Logistics)**

EXECUTIVE SUMMARY

The hearing focused on the problems that GAO and DoD IG highlighted with the current DoD Agency Wide Financial Statements. The Committee is concerned that the weaknesses identified by GAO and DoD IG indicate little to no improvement from previous years. The Committee feels DoD should apply the same approach used to work through Y2K problems and apply it to correct existing financial system to make us CFO compliant. The Department needs to establish milestones and monitor progress to ensure that we move forward as we did with Y2K. The Material Commanders expressed the importance of good financial data to assist their managers in the field. General Lyles assured the Committee that DoD senior leadership is committed and focused on improving financial management systems. The focus needs to be on developing seamless systems that create a “world-class financial system.”

The Subcommittee was called to order at 1400.

***All witnesses were sworn in prior to testifying before the Subcommittee**

Chairman Horn's opening remarks:

- Purpose of the hearing is to assess the status of the DoD Agency Wide financial statements
- DoD needs to be committed to establishing financial systems that provide useful information for leaders in the field
- DoD must be committed to working both short and long term solutions

Representative Turner's opening remarks:

- Reiterated the Chairman's statement of the importance of correcting the inherent systemic problems that exist with current financial systems

Mr. Lieberman

- FY99 financial statements were plagued by poor data systems
- Existing automated systems are unreliable, preventing auditable data
- Department faces continued challenges to develop efficient automated systems
- Improvements to financial systems needs to take the same approach as the Y2K conversion

Mr. Steinhoff

- DoD is making progress with their financial statements, but they have a long way to go
- Process must be standardized and simplified; need streamlined feeder systems to produce a clear CFO report
- Current efforts are noteworthy but recommend that the same framework used to address Y2K issues be used to establish a world-class financial management system
- Interim plan must establish milestones and the Department must take a disciplined approach to ensure that financial systems development complies with the Clinger/Cohen Act
- DoD must maintain a sustained, high level of commitment to improving financial systems

Mr. Bill Lynn

- DoD Financial Management Reform is a high priority for senior defense officials
- Improving the financial systems must correct in a phased approach
 - Phase 1 consolidate financial management operations
 - Phase 2 eliminate non-compatible/non-compliant systems; have gone from 326 to 96 systems today and hope to be down to 30 systems by 2003
 - Phase 3 upgrade interfaces that feed data into reports from all disciplines

Chairman Horn

- Expressed concern that DoD must provide oversight for the 3 services to ensure that there is commonality between all branches and that improvements with financial systems are applied across the board

Mr. Lynn

- Financial systems were not originally built to support CFO
- Current focus is to establish systems that allow seamless automated data transfer

Mr. Steinhoff

- Expressed that the failure of our financial systems impacts our tax payer dollars
- Potential adverse impact to control costs on weapon systems procurement and sustainment
- Working Capital Fund is an example of the inefficiency of the current financial system--WCF has consistently operated at a loss
- Currently do not have any system visibility

CM Turner

- The Department needs to establish a timeline and be held to achieving quantifiable benchmarks that show the progress they are making to improve financial data systems
- Has the Anti-Deficiency Act been used?

Mr. Steinhoff

- No criminal punishment--there have been admonishments with the Anti-Deficiency Act
- DoD lacks cost accounting systems; this lack of good data can impact everything from A-76 studies, to medical data, to the WCF
- Budget data and obligated balances do not provide reliable data--need accurate cost accounting system
- Clinger/Cohen Act must be followed

PANEL 2

General Coburn

- Army Material Command is focused on short and long-term improvements that are currently underway
- Establishing a single stock fund system for better oversight
- Wholesale modernization systems are currently being worked
- There is a daily focus on accounting and financial data

General Lyles

- Approaches AFMC with a business management perspective-- a \$26.3B business
- Challenge exists to obtain timely financial data
- Cost accounting, cost controls and cost culture is key to managing the complex business of AFMC
- Great deal of effort is being placed on improving the quality of financial data
- Partnering with DFAS, AFMA, and the Navy to implement the Depot Maintenance Accounting Production System--provide actual cost information, automate billing process and strengthen funds control

Vice Admiral Amerault

- Reliable, accurate information is very important but not key to determining overall readiness

Chairman Horn

- How does inventory control impact you on making sound business decision?

Gen Coburn

- Inventory control systems need improvement
- Sometimes we are too concerned with inventory control to find that it is actually a paperwork error

Gen Lyles

- Inventory control involves labor intensive systems that need to be simplified particularly when you are dealing with high volume, fast moving assets

Mr. Steinhoff

- The Material Commanders are the business leaders of the field--we need to honor their inputs as we continue to make progress with defense financial systems

Gen Lyles

- We are on the right road and making progress with the financial systems
- ALCs need to have the right financial systems and best practices to operate efficiently
- As a previous member of the JROC I can assure that business operating systems and good asset visibility are as important to Senior leadership as new weapon system procurement

Chairman Horn's closing remarks:

- Thanked everyone for their time and for attending the hearing

The hearing was concluded at 1600